

Editorial

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The previous issue of *Financial Markets and Portfolio Management* was a special issue on alternative investments, such as hedge fund, private equity, and venture capital investments. In this regular issue, we will once again include a focus on private equity and venture capital investments. The first three articles are dedicated to this topic.

In the first article in this issue, Douglas Cumming and Sofia Atiqah binti Johan empirically investigate the relationship among cash-flow allocations, formal control rights and the effort spent by venture capitalists in advising the management of the firms in which they invest. Additionally, they also analyze the conflicts that occur between managers and venture capitalists and relate them to the quality of the legal systems as well as to firm-specific factors.

In the second article, Rainer Lauterbach, Isabell M. Welp, and Jan Fertig analyze private equity and venture capital returns with respect to contractual factors, such as the use of convertible bonds, and investment-behavioral factors, such as the experience of the venture capitalist. In particular, they distinguish between risk mitigation and return maximization. Their empirical results show that some factors are associated with risk reduction while others can be related to maximizing returns.

André F. Gygax and Anna Griffiths address the issue of portfolio size in a venture capital context. They hypothesize that, because of information asymmetries and unobservable variables, managers determine the size of their venture portfolio not as much by standard portfolio considerations but by imitation and by the use of prior experience. They present empirical evidence that the effect is greater in the presence of higher uncertainty.

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In the fourth article, Nicola Carcano investigates the efficiency of unhedged and hedged foreign bond investments from the viewpoint of a Swiss investor. Looking at risk-adjusted returns, he compares long-term and short-term investment horizons.

In their Perspectives article, Stefan J. Illmer and Wolfgang Marty argue that portfolios with a focus on absolute returns nonetheless also require a benchmark for performance measurement and present a practical approach to decomposing returns of absolute-return portfolios.

This issue includes two book reviews. In the first review, David Skovmand and Michael Verhofen discuss the second edition of the popular book “Interest Rate Models — Theory and Practice” by Damiano Brigo and Fabio Mercurio. In the second review, Karl Ludwig Keiber discusses the book “Exchanges, Banks, and Capital Markets”, edited by Wolfgang Bessler. The book contains contributions in English and in German.

Finally, I would like to point your attention to the *Report of the Editor 2006* at the end of this issue. In this report, I review some of the recent improvements to FMPM and show our submission and acceptance statistics. Overall, FMPM has accepted approximately 25% of the submitted articles. Most articles required two rounds of revisions before they were accepted for publication.

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